

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 ABF-01 PER-05 PC-04 DODE-00 PM-07 H-03

L-03 PA-04 PRS-01 USIA-15 IGA-02 FS-01 DRC-01 (ISO) W

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R 021625Z APR 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 6661

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: EXCHANGE REUNIFICATION MEASURE

REF: SAN JOSE A-29

1. SUMMARY: THE BILL FOR REUNIFICATION (READ OFFICIAL DEVALUATION) OF EXCHANGE RATES WAS SENT TO THE ASSEMBLY MARCH 29. GOCR EXPECTED TO SEEK QUICK PASSAGE WITHOUT AMENDMENT. BILL PROPOSES NEW "OFFICIAL RATE" OF COLONES 8.54/8.60, I.E. EXISTING FREE MARKET RATE. "TEMPORARY" EXCHANGE TAXES RANGING FROM 2 PERCENT TO 18 PERCENT WOULD BE ASSESSED ON EXPORT EXCHANGE SURRENDER. END SUMMARY.

2. ACCORDING TO WEEKEND PRESS, THE EXECUTIVE BRANCH ON MARCH 29 SENT LONG AWAITED EXCHANGE REUNIFICATION BILL TO LIMITED OFFICIAL USE

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THE ASSEMBLY. IT SEEMS LIKELY THAT THE GOCR WILL ATTEMPT TO

SECURE EARLY PASSAGE WITHOUT AMENDMENT. MAJOR PROVISIONS ARE AS FOLLOWS:

- A. DEVALUATION OF THE OFFICIAL COLON FROM COLONES 6.62/6.65 TO COLONES 8.54/8.60 (I.E. THE PRESENT FREE MARKET RATE).
- B. TEMPORARY EXPORT EXCHANGE SURRENDER TAXES RANGING FROM 2 PERCENT ON "NON-TRADITIONAL MERCHANDISE TO THE REST OF THE WORLD" TO 18 PERCENT FOR FOREIGN BANANA EXPORTERS (AND 10 PERCENT FOR INDEPENDENT BANANA GROWERS).
- C. CENTRAL BANK CONTROL OVER TIME PAYMENTS FOR GOODS AND SERVICES (PRESUMABLY, RETAIL CREDIT).
- D. ALL FUTURE PUBLIC SECTOR DEBT (EXCEPTING BANK DEBT) TO BE NEGOTIATED IN CONSULTATION WITH THE MINISTRY OF FINANCE.
- E. REPAYMENT AT THE OLD RATE FOR PREVIOUSLY CONTRACTED OBLIGATIONS FOR ESSENTIAL GOODS AND CAPITAL GOODS, INCLUDING THOSE OBLIGATIONS CONTRACTED UNDER OLD ARTICLE 64 OF THE CENTRAL BANK'S REGULATIONS (E.G. FOR PAYMENT ON EXIMBANK CREDITS FOR AGRICULTURAL EQUIPMENT, ETC.).
- F. REPAYMENT AT THE OLD RATE BY STATE BANKS OF LOANS FROM "INTERNATIONAL FINANCIAL ENTITIES OR PRIVATE (INSTITUTIONS) ... FOR ECONOMIC DEVELOPMENT PURPOSES...."

3. COMMENT: THE REUNIFICATION MEASURE FALLS CONSIDERABLY SHORT OF THE "NEW P.E.G." DESCRIBED IN REFAIR. NEVERTHELESS, IT IS GENERALLY CONSISTENT WITH IT. THE MEASURE WAS FINALLY APPROVED BY THE CENTRAL BANK BOARD AFTER WEEKS OF OPPOSITION BY THE THREE MINORITY UNIFICACION NACIONAL (UN) BOARD MEMBERS. FINALLY, THE BOARD'S APPROVAL BY THE REQUIRED FIVE VOTE MAJORITY WAS OBTAINED AFTER THE RESIGNATION OF ONE OF THE OPPOSITION MEMBERS, OSCAR JIMENEZ, AND HIS REPLACEMENT BY REMBERTO BRIZENO, AS THE THIRD UN REPRESENTATIVE. BRIZENO VOTED WITH THE PLN MAJORITY.

4. CONSIDERABLE CONCERN HAS BEEN EXPRESSED BY COSTA RICAN INDUSTRIALISTS ABOUT THE EXCHANGE SURRENDER TAX ON EXPORTS. THE MEASURE WOULD PROVIDE FOR A 7 PERCENT TAX ON MERCHANDISE TO CENTRAL AMERICA AND PANAMA AND, AS NOTED ABOVE, 2 PERCENT ON SUCH EXPORTS TO THE REST OF THE WORLD. ALTHOUGH IN EVERY CASE, EXPORTERS WILL HAVE A MORE FAVORABLE SURRENDER RATE THAN BEFORE, THE INDUSTRIALISTS ARGUE THE TAXES LIMITED OFFICIAL USE

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WILL TEND TO INHIBIT INVESTMENT IN EXPORT-ORIENTED INDUSTRIES. PROCEEDS FROM THESE TAXES WILL BE USED FOR FISCAL ENDS, RATHER THAN STERILIZED AS THE CENTRAL BANK STAFF HAD HOPED.

5. CONCERNING FOREIGN DEBT, MUCH WILL DEPEND UPON HOW THE CENTRAL BANK BOARD RESOLVES, "TRANSITORY SITUATIONS NOT EXPRESSLY CONTEMPLATED IN THIS LAW". WE ANTICIPATE THAT REPAYMENT OF PRIVATE "REGISTERED" DEBT OTHER THAN THAT

DESCRIBED IN PARAGRAPH 2 (E) ABOVE, WILL BE SUBJECT TO THE
NEW EXCHANGE RATE, BUT MOST, IF NOT ALL, AID LENDING WOULD
SEEM TO BE SUBJECT TO THE TRANSITORY PROVISIONS ALLOWING
FOR REPAYMENT AT THE OLD RATE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, PRESS COMMENTS, FOREIGN EXCHANGE RATES, FINANCIAL PROGRAMS, DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANJO01275
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740073-0869
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740474/aaaacpts.tel
Line Count: 120
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: SAN JOSE A-29
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by boyleja>; APPROVED <10-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXCHANGE REUNIFICATION MEASURE
TAGS: EFIN, CS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005